Executive summary

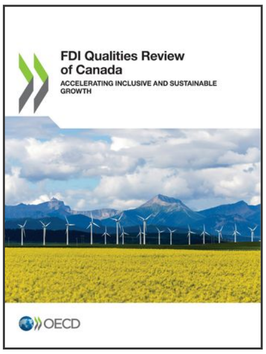
Canada must continue pursuing its sustainable development agenda and address pressing challenges, including weak productivity growth, persistent socio-economic inequalities, and the need to reduce net greenhouse gas emissions to zero by 2050, as set out in its ambitious environmental plan. Canada has historically been open to investment and trade. The stock of foreign direct investment (FDI) as a percentage of gross domestic product (GDP), highlighting the economic importance of foreign investment, has increased over time and is higher than that of most other OECD countries. The largest share of FDI is found in services, particularly in the management of companies and enterprises, finance and insurance and trade. Some manufacturing sectors, particularly chemicals, food and beverages, petroleum and coal products), and gas and oil extraction have also received significant foreign investment, particularly in the form of expansions and new establishments of foreign companies (i.e. greenfield FDI). Other sectors such as manufacturing, agriculture, utilities, and construction attract relatively lower levels of FDI in Canada. The majority of greenfield FDI projects are situated in Ontario, Alberta, British Columbia, and Quebec, which are the most densely populated provinces and centres of economic activity.

FDI supports Canada's important sustainable development goals. FDI is an important driver of exports, particularly of products at earlier stages in production such as oil and gas extraction, but also of transport equipment, ICT and electronics. Affiliates of foreign multinational enterprises (MNEs) in Canada account for more than half of merchandise and commercial services exports and are more involved in GVCs than domestic firms, especially in terms of backward linkages. They are on average more productive and innovative than Canadian firms and can thus provide an important boost to domestic labour productivity, which in Canada has lagged behind that of other major OECD economies. Moreover, compared to Canadian firms, foreign firms are more engaged in R&D and product and process innovations and joint product development with other firms. They also create significant buy and sell links with domestic firms, including many Canadian small and medium enterprises (SMEs), which can encourage positive productivity spillovers through technology transfer and greater integration into GVCs. Further diversifying FDI in more innovative and knowledge-intensive sectors can boost the positive impact of international investment on productivity, innovation, and integration in GVCs.

Foreign firms in Canada also make an important contribution to job creation and upskilling. In 2020, foreign firms were responsible for about 13% of employment, despite accounting for less than 1% of active firms. While FDI has a lower job creation potential than the OECD average (1.3 jobs per USD million invested – half the OECD average), many are jobs in technology- and knowledge-intensive occupations offering high wages and stable employment contracts (i.e., full-time, permanent jobs). However, FDI is concentrated in sectors with falling collective bargaining coverage rates as shown in Chapter 3. Workers' representations can support better working conditions in MNEs and help companies adapt to a rapidly changing world of work. Foreign employers in Canada face skills imbalances in digital, tech-related and trades skills, although less than domestic firms. As MNEs, they rely on their large size and global experience to deploy more effective strategies to scout talent and train workers. Aligning the investment promotion, employment and skills development strategies, further facilitating partnerships between foreign firms and education providers, encouraging international labour mobility across subsidiaries of an MNE, and integrating FDI into mechanisms that assess and anticipate future skills needs will help ensure that the impact of FDI is more widespread and positive.

The extent to which foreign firms operating in Canada contribute to enhanced diversity and inclusion of vulnerable groups, particularly women, Indigenous peoples, foreign workers from disadvantaged backgrounds, and people with disabilities in Canada’s labour market cannot be determined with the limited data available for this report. Foreign firms are generally more prevalent in sectors where these vulnerable groups tend to be less represented, such as mining and energy, business services and manufacturing. The results of an OECD business consultation provides preliminary evidence that foreign companies seem to put less priority on having a diverse and inclusive workforce compared to Canadian peers. This is denoted by their lower shares of workers from these vulnerable groups (except for foreign workers), including in management positions, compared to Canadian companies. Foreign companies are also less likely to use inclusive work practices in the workplace than Canadian companies. On the other hand, foreign companies seem to attach more importance to formal training and have a higher proportion of employees from vulnerable groups who have received training, compared to Canadian companies. Improving the representation of these vulnerable groups of workers in sectors where Canada attracts or wants to attract more FDI will ensure that the job opportunities created by foreign companies benefit all segments of the population.

FDI has also the potential to help Canada achieve its ambitious plan to reduce the economy's net emissions to zero by 2050. Canada has made great progress in phasing out coal-fired power, achieving among the highest shares of zero-emission electricity in the OECD. It is a clean technology pioneer when it comes to developing breakthrough technologies that will help decarbonise heavy industries. Yet, the Canadian economy remains carbon-intensive due to oil and gas extraction, road transport, and residential heating. FDI has the potential to provide financial and technological resources to accelerate Canada's green transition. However, it remains concentrated in relatively more carbon-intensive activities compared to domestic investment, especially in the mining, chemical and pharmaceutical sectors. Furthermore, fossil fuels still account for a large share of FDI (84%) in Canada's energy sector and investment in green R&D is modest compared to FDI in other forms of R&D. Accelerated electrification of key sectors and electricity grid upgrades will be crucial for Canada to achieve its ambitious climate commitments. Attracting more FDI in green sectors and technologies can help reduce GHG emissions and develop the green skills needed to achieve these environmental goals.



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